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Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

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USSR: Oil Production Up But Costs EscalatingSummary

Soviet oil production has increased this year, from an average of nearly 12.4 million barrels per day (b/d) in January to roughly 12.5 million b/d in June. This increase results largely from a sharp rise in oil-industry investment that began in 1986. The 2.3 percent increase in first-half oil production over first-half 1986 is generally consistent with increased Soviet oil exports to the West. Moscow appears determined to sustain hard currency revenues from oil exports while avoiding a shortage of liquid fuels that might interfere with industrial modernization, and is again committing a large slice of resources to the oil sector--apparently more than planned and more than CIA analysis anticipated. Nonetheless, the basic dilemma confronting the Soviet oil industry--declining output from the older, giant oilfields and an ever-increasing commitment of resources to develop a very large number of smaller, less productive, and more complicated fields--still exists and is probably intensifying. Oil industry investment now approximates that underlying our November 1986 "high case" projection and is consuming an increasing share of capital resources--including high-quality steel, equipment, and instrumentation.

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If Moscow continues to spend whatever is necessary to keep oil production at a high level, output in 1990 would likely approximate the 12 million b/d envisioned in our fall-1986 "high case" projection. This effort, however, would entail a rise in oil-industry investment to a level roughly 50 percent over the plan for 1986-90. Some doubt about the feasibility of keeping oil production up, however, has already been expressed by a high-level Soviet. If Moscow decides against continuing the large annual increases in investment, oil output in 1990 could fall to around 11-1/4 million b/d in 1990, the "most likely case" in last year's analysis. Even with high investment, the production outlook in Tyumen' Oblast--the principal oil producing region--remains precarious, and Soviet economic planners themselves anticipate declining oil output from other regions.

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This memorandum was prepared by [redacted] Office of Soviet Analysis. Comment and questions are welcome and can be directed to Chief, Economic Performance Division [redacted]

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